

Message Text

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C O N F I D E N T I A L STATE 015806

TOVIP 05 EXDIS/EYES ONLY RICHARD COOPER FROM FRANK

E.O. 11652: GDS

TAGS: EAID

SUBJECT: SOME THOUGHTS ON OUR APPROACH TO THE COMMON FUND

1. WHILE YOU ARE IN EUROPE I THOUGHT I MIGHT TAKE THE OPPORTUNITY TO DO A LITTLE THINKING ABOUT HOW WE MIGHT APPROACH THE COMMON FUND ISSUE, PARTICULARLY WITH REGARD TO THE MARCH NEGOTIATING SESSION. KEEP IN MIND THAT THIS CABLE REPRESENTS ONLY SOME INITIAL IDEAS OF MY OWN. EB IS WORKING, AS YOU KNOW, ON A MORE CONSIDERED OPTIONS PAPER.

2. I THINK IT IS MOST IMPORTANT TO DISTINGUISH BETWEEN THE POLITICAL SYMBOLISM OF THE COMMON FUND AND THE SUBSTANCE OF THE ISSUES WITH WHICH THE COMMON FUND OSTENSIBLY DEALS. THE WORDS COMMON FUND MEAN MANY THINGS TO MANY PEOPLE. THE SUBSTANCE, AS JULES KATZ INDICATED TO YOU, CONFIDENTIAL

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HAS REALLY YET TO BE DEFINED.

3. SO FAR WE HAVE FOUGHT THE BATTLE ON LARGELY SYMBOLIC AND IDEOLOGICAL GROUNDS IN THE UNCTAD FORUM. IF WE ARE WILLING TO MAKE A COMMITMENT TO A SUBSTANTIVE DEFINITION OF THE COMMODITY PROBLEM AND A SERIOUS EFFORT TO FIND SOLUTIONS, I BELIEVE THAT WE CAN SIGNIFICANTLY SHAPE THE

SUBSTANTIVE OUTCOME. THE EUROPEAN COMMUNITY, DIVIDED AMONG THEMSELVES, CANNOT PROVIDE THE LEADERSHIP. THE

JAPANESE RARELY GET OUT FRONT ON ISSUES OF THIS SORT. THE DEVELOPING COUNTRIES AND THE UNCTAD SECRETARIAT LACK BOTH THE TECHNICAL EXPERTISE AND THE POLITICAL COHESION REQUIRED TO DO A SERIOUS JOB IN DESIGNING A MEANINGFUL AND USEFUL COMMON FUND.

4. WHILE MANY OF THE DEVELOPING COUNTRIES, PARTICULARLY IN LATIN AMERICA AND SOUTH ASIA, ARE SYMPATHETIC TO US ON THE SUBSTANTIVE ISSUES, THEY FIND IT DIFFICULT TO COOPERATE WITH US FOR POLITICAL REASONS. IF WE WERE TO MAKE THE POLITICAL STEP OF SUPPORTING A "COMMON FUND", I SUSPECT WE WOULD FIND MANY OF THESE COUNTRIES COOPERATING WITH US TO DEFINE THE DETAIL IN A WAY THAT IS COMPATIBLE WITH OUR SUBSTANTIVE VIEWS.

5. THIS SUGGESTS THAT WE OUGHT TO BE WILLING TO ACCEPT THE WORDS COMMON FUND AND THE POLITICAL SYMBOLISM FOR WHICH IT STANDS, I.E., A MORE CONSTRUCTIVE AND HELPFUL APPROACH TO THE PROBLEMS OF THE DEVELOPING COUNTRIES. I SUSPECT WE ARE GOING TO ACCEPT THE SYMBOLISM SOONER OR LATER ANYWAY. THE REAL QUESTION IS TIMING. I AM INCLINED TO RECOMMEND THE MARCH MEETING IN GENEVA AS THE APPROPRIATE TIME TO TAKE THE POLITICAL STEP. IF WE DO NOT TAKE THE STEP THEN, THE CIEC MEETING WILL TAKE ON ALL THE MORE SIGNIFICANCE TO THE LDC'S AS A FORUM WHERE THEY MIGHT PRESS THEIR COMMODITY DEMANDS.
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6. WITH REGARD TO SUBSTANCE, AS YOU KNOW, THERE ARE TWO BASIC ISSUES: STABILIZATION OF COMMODITY PRICES AND RESOURCE TRANSFERS THROUGH COMMODITY-RELATED MECHANISMS.

7. AS YOU HAVE POINTED OUT, PRICE STABILIZATION OF COMMODITIES CAN BE IN OUR INTEREST AND IN THE INTEREST OF THE DEVELOPING COUNTRIES; THE REAL QUESTION IS ARE THERE MEANS AVAILABLE TO ACHIEVE THE PURPOSE.

8. I BELIEVE FAR TOO MUCH EMPHASIS HAS BEEN PLACED ON INTERNATIONALLY HELD AND CONTROLLED BUFFER STOCKS AS A MEANS OF STABILIZING PRICES. IT MAKES LITTLE SENSE TO EXPECT AN INTERNATIONAL STOCK TO STABILIZE PRICES MUCH IF IT REPRESENTS SUCH A VERY SMALL PROPORTION OF TOTAL STOCKS OF A COMMODITY, BOTH IN PRIVATE AND PUBLIC HANDS. A PRICE STABILIZATION SCHEME HAS THE BEST CHANCE TO WORK IF IT ATTEMPTS TO INFLUENCE DECISIONS OF ALL THE INDIVIDUALS AND INSTITUTIONS THAT HOLD STOCKS OF COMMODITIES. THIS INCLUDES STOCKS HELD BY NATIONAL GOVERNMENTS SINCE

GOVERNMENTAL BEHAVIOR IN COMMODITY MARKETS CAN BE ENORMOUSLY DESTABILIZING. IT ALSO SHOULD BE CONCERNED WITH GOVERNMENT POLICIES DESIGNED TO ENCOURAGE OR DISCOURAGE PRIVATE STOCK PURCHASES OR SALES.

9. AT A MINIMUM, I SHOULD THINK COMMODITY AGREEMENTS OUGHT TO COVER THE GATHERING AND EXCHANGE OF INFORMATION ON STOCKS, PUBLICALLY AND PRIVATELY HELD IN PARTICIPATING COUNTRIES. THEY MIGHT ALSO PROVIDE FOR INTERNATIONAL COORDINATION AND CONSULTATION ON PUBLIC POLICIES CONCERNING PUBLIC AND PRIVATE STOCKS, ALONG LINES SIMILAR TO THE U.S. GRAIN RESERVES PROPOSAL. IN SOME CASES, BUT RELATIVELY FEW, INTERNATIONAL AGREEMENTS WOULD ALSO COVER INTERNATIONAL BUFFER STOCKS, BUT THESE OUGHT TO BE VIEWED AS ONLY ONE ELEMENT IN A RANGE OF POLICY TOOLS FOR
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STABILIZATION PURPOSES.

10. INTERESTINGLY, INTERNATIONALLY COORDINATED PRICE STABILIZATION EFFORTS FIT NICELY INTO AN INTERNATIONAL MACRO-ECONOMIC POLICY FRAMEWORK AS ONE OF SEVERAL MEANS TO COMBAT INFLATION. THE COMMON FUND MEETING IN MARCH COULD BE RELATED TO OUR OVERALL MACRO-POLICY EFFORTS AND THE PAPERS WE TABLE IN GENEVA COULD REFLECT THIS ORIENTATION. A SECOND NEGOTIATING SESSION ON THE COMMON FUND MIGHT BE HELD AFTER THE SUMMIT AS A WAY OF INTEGRATING COMMODITY PRICE STABILIZATION INTO THE MACRO-ECONOMIC POLICY SCHEME THAT IS AGREED TO AT THE SUMMIT. THIS WOULD BE ONE WAY OF HELPING TO BUILD A BROAD CONSENSUS AMONG BOTH DEVELOPED AND DEVELOPING COUNTRIES AND A SENSE OF PARTICIPATION FOR DEVELOPING COUNTRIES IN INTERNATIONAL ECONOMIC POLICY MAKING.

11. I SEE THREE WAYS OF LOOKING AT THE PROBLEM OF THE COMMON FUND AS A RESOURCE TRANSFER MECHANISM.

-- FIRST, MANY DEVELOPING COUNTRIES SUGGEST THAT THE COMMON FUND OUGHT TO SUPPORT RESOURCE TRANSFERS, AT LEAST IN PART, THROUGH SUPPORTING HIGHER PRICES TO PROVIDE MORE FOREIGN EXCHANGE EARNINGS AND TAXATION CAPABILITIES IN COMMODITY PRODUCING COUNTRIES.

-- SECOND, SOME PEOPLE TAKE THE VIEW THAT THE COMMON FUND OUGHT TO FINANCE RESOURCE TRANSFERS THROUGH A VARIETY OF OTHER, BUT COMMODITY-RELATED, MEANS. RESOURCES COULD BE PROVIDED TO IMPROVE COMMODITY PRODUCTIVITY, TO HELP FINANCE DIVERSIFICATION SCHEMES, FOR STABILIZING EXPORT EARNINGS FROM COMMODITIES, FOR LOANS ON HIGHLY CONCESSIONARY TERMS FOR COMMODITY PRICE STABILIZATION PURPOSES,

AND FOR NEW INVESTMENTS IN PRODUCTIVE CAPACITY.

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-- THIRD, STILL OTHERS TAKE THE APPROACH THAT RESOURCES OUGHT TO BE TRANSFERRED BY CONVENTIONAL MECHANISMS SUCH AS THE INTERNATIONAL DEVELOPMENT ASSOCIATION OF THE WORLD BANK GROUP AND THAT THE COMMON FUND OUGHT NOT BE A RESOURCE TRANSFER MECHANISM.

12. SUPPOSE WE WERE TO SUGGEST THAT RESOURCES OUGHT TO BE TRANSFERRED BY IDA AND OTHER INTERNATIONAL FINANCIAL INSTITUTIONS AND THAT THE COMMON FUND OUGHT TO BE STRICTLY FOR STABILIZATION PURPOSES. THIS IS APPEALING ON ECONOMIC AND ORGANIZATIONAL GROUNDS, BUT MAY NOT BE POLITICALLY FEASIBLE. THE POLITICAL IMPETUS BEHIND THE COMMON FUND DERIVES, IN PART, FROM A DESIRE TO FIND MEANS OF RESOURCE TRANSFERS, DIRECTED AT PROBLEMS AS PERCEIVED BY DEVELOPING COUNTRIES, IN WHICH THE DEVELOPING COUNTRIES HAVE A GREATER VOICE THAN IN EXISTING INSTITUTIONS.

13. EVEN IF WE ASSUME THAT THE COMMON FUND OUGHT TO PROVIDE FOR RESOURCE TRANSFERS, WE NEED NOT ACCEPT THAT THEY HAVE TO BE TRANSFERRED THROUGH ARTIFICIALLY HIGH PRICES. THIS IS A SEPARATE ISSUE. I THINK THAT IT IS IMPORTANT, HOWEVER, TO TREAT THIS POLITICALLY- CHARGED ISSUE WITH GREAT DELICACY. IF AT ALL POSSIBLE, WE WANT TO AVOID PREACHING ABOUT ECONOMIC EFFICIENCY. IT IS FAR BETTER IF OFFICIALS OF DEVELOPING COUNTRIES LEARN THROUGH A PROCESS OF NEGOTIATION AND CALM DISCUSSION THAT RAISING PRICES IS AN IMPRACTICAL, INEFFICIENT AND INEQUITABLE MEANS OF TRANSFERRING RESOURCES.

14. IF WE WERE TO SUPPORT A COMMON FUND WITH TWO PURPOSES, STABILIZATION AND RESOURCE TRANSFERS, THERE PROBABLY OUGHT TO BE TWO SEPARATE FUNDS. THE PRICE STABILIZATION FUND COULD LEND, LARGELY ON COMMERCIAL TERMS, FOR THE PURPOSE OF STOCK ACCUMULATION, EITHER BY INTERNATIONAL OR NATIONAL BUFFER STOCKS IF STOCK POLICIES WERE SUBJECT TO INTERNATIONAL AGREEMENT OR GUIDELINES.
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A COMMON FUND FOR STABILIZATION PURPOSES HAS BEEN CRITICIZED ON THE GROUNDS THAT LOGICALLY ONE SHOULD AGREE ON THE INDIVIDUAL COMMODITY AGREEMENTS AND THEN ON A COMMON FUND. I FEEL THIS IS NOT AN IMPORTANT ISSUE AND THAT ALL WE REALLY NEED POLITICALLY IS AN AGREEMENT, IN PRINCIPLE, TO PROVIDE RESOURCES UP TO A CERTAIN AMOUNT FOR COMMODITY STABILIZATION PURPOSES. CASH CONTRIBUTIONS COULD AWAIT THE ACTUAL ESTABLISHMENT OF AGREEMENTS IN WHICH BOTH CONSUMERS AND PRODUCERS PARTICIPATE.

15. IN THE COMMON FUND MEETINGS, WE COULD NEGOTIATE A SET OF TERMS AND CONDITIONS UNDER WHICH LOANS WOULD BE MADE AVAILABLE FROM THE STABILIZATION FUND TO NATIONAL

OR INTERNATIONAL BUFFER STOCKS. THIS IS PROBABLY FAR BETTER THAN TRYING TO NEGOTIATE A SET OF PRINCIPLES IN THE ABSTRACT. WE ALSO HAVE TO REALIZE THAT THERE WOULD BE A VOTING STRUCTURE WHICH WOULD PROVIDE SOME CONTROL OVER THE LOAN OF FUNDS FOR STABILIZATION PURPOSES.

16. THAT PART OF A COMMON FUND DEVOTED TO RESOURCE TRANSFERS MIGHT DO A VARIETY OF THINGS. IT MIGHT PROVIDE INTEREST SUBSIDIES OR SUBSIDIZED LOANS TO COMPLEMENT LOANS MADE FROM THE STABILIZATION FUND. FOR OTHER RESOURCE TRANSFER PURPOSES, SUCH AS DIVERSIFICATION AND PRODUCTIVITY IMPROVEMENT, THE FUND NEED NOT HAVE ITS OWN STAFF BUT COULD BE TIED CLOSELY TO EITHER THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT OR THE REGIONAL DEVELOPMENT BANKS. MANAGEMENT AND ADMINISTRATION OF THESE LOANS COULD BE DONE BY EXISTING INSTITUTIONS, ALTHOUGH THERE MIGHT BE SOME FORM OF SEPARATE POLITICAL CONTROL OVER POLICY, BASED ON THE COMMON FUND POLITICAL STRUCTURE.

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